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PEOPLES CREDIT JEWELLERS LIMITED

1968

ANNUAL REPORT



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PEOPLES CREDIT JEWELLERS LIMITED

directors

BERTRAND GERSTEIN, chairman

MARVIN GERSTEIN

IRVING R. GERSTEIN

officers

BERTRAND GERSTEIN
chairman of the board

MARVIN GERSTEIN
president

IRVING R. GERSTEIN
executive vice-president

BRUCE E. SMITH
vice-president, finance & treasurer

JAMES A. HENRY
vice-president, operations

MARVIN C. GORD
vice-president, merchandising

IRWIN KOFFMAN
secretary

head office

181 YONGE STREET, TORONTO 210, CANADA

transfer agent

CANADA PERMANENT TRUST COMPANY,
1901 YONGE STREET, TORONTO 290, CANADA

PEOPLES CREDIT JEWELLERS LIMITED

SIXTY-EIGHT STORES AS AT JANUARY 31, 1969

	<u>P.C.J.</u>	<u>Mappin's</u>	<u>Leased Departments</u>	<u>Coronet Card Shops</u>
BELLEVILLE			1	
BURLINGTON	1	1		
CALGARY	1			
EDMONTON	6			
FORT WILLIAM		1 *		
HALIFAX	1			
HAMILTON	1			1
KINGSTON	2		1	
LETHBRIDGE	1			
LONDON	1		1	
MONCTON	1			
MONTREAL	9	2		
MOOSE JAW	1			
NANAIMO	1			
NEW WESTMINSTER	1			
OAKVILLE	1			
OTTAWA	2		3	
PETERBOROUGH	1		1	
PORT ARTHUR		1 *		
REGINA	1			
SARNIA	1		1	
SASKATOON	1			
SAULT STE. MARIE			1	
TORONTO	4		3	2
VANCOUVER	2			
VICTORIA	1			
WELLAND			1	
WINDSOR	2		1	
WINNIPEG	3			
	<u>46</u>	<u>5</u>	<u>14</u>	<u>3</u>
TOTAL	<u>46</u>	<u>5</u>	<u>14</u>	<u>3</u>

* Operated under the name of Birks Stitt Credit Jewellers

PEOPLES CREDIT JEWELLERS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

The accompanying Financial Statements of your Company for the year ended January 31st, 1969, are submitted on behalf of the Board of Directors. Sales for the year were \$21,600,000, an increase of \$1,517,000 or 7.5% over the previous year. Net Income for the year was \$987,000, an increase of \$10,000. Earnings on the Common and Class "A" Shares for the year, after payment of Preferred Dividends, were \$1.31 per share compared to \$1.37 per share for the previous year. While net income exceeded the previous year, the additional 38,000 Class "A" shares issued during the year resulted in a decline in per share earnings. Working Capital during the year increased by \$174,000. Dividends declared upon the Capital Stock of the Company during 1968 were 10¢ quarterly for a total of 40¢ per share on both the outstanding Class "A" and Common Shares. As usual the greater part of the earnings has been retained for investment and the further development of the Company.

As was indicated in the Interim Half-Yearly Report as of July 31st, 1968, the first half of the year resulted in a sales decline of \$179,000 with an accompanying Net Loss for the period of \$33,500 as compared with Net Income of \$189,000 the year previous. A significant factor in the above comparison was that the 1968 period comprised only 25 weeks as compared to 26 weeks last year.

During the second half of the year ending January 31st, 1969, Sales were \$14,400,000, an increase of \$1,697,000 or 11.8%, and Net Income was \$1,021,000, an increase of \$232,000 or 29%.

Thus the last half of the year (a period of 27 weeks compared to 27 weeks) shows a substantial increase in both Sales and Income, a trend which it is expected will continue during the current year. Although the first quarter report for this year is not yet available, Management is confident that results will show a very substantial improvement over last year.

During the year, seven new traditional stores were opened in Shopping Centres; three in Montreal (bringing our total to nine), one each in Edmonton (our sixth), Winnipeg (our third), Kingston (our second) and Burlington. In addition, in the City of Moose Jaw we moved to much larger and better located premises with a very substantial increase in sales and profits as a result. Our "Carriage Trade" subsidiary, Mappin's, initiated its program of expansion with the opening of its first store outside of those originally acquired in Montreal, also in the Burlington Mall. Thus for the first time in a major regional Shopping Centre, two complementary jewellery stores are operated by your Company.

An interesting development during the current year has been the acquisitions made in other than our normal retail jewellery operation; the acquisition from the Elgin National Watch Company of the United States, of the right for the exclusive distribution of Elgin Watches in Canada by a wholly owned subsidiary, "Seejay" Limited, and the acquisition of the assets of Coronet Card Shops specializing in Greeting Cards. This latter acquisition consisted of two stores in Toronto, and during the year a third store was opened in Hamilton. This continues our policy of carefully controlled growth and development in closely associated or allied areas of activity.

Opened in March this year was our second store in Moncton and already scheduled for opening during the remainder of this year are three traditional stores in Shopping Centres in Vancouver, Halifax and Metropolitan Toronto, and two Mappin's Stores, both in Vancouver.

During the past year a stock acquisition program was introduced as an incentive to attract senior personnel and 40,000 Class "A" Shares were issued for this purpose. Subsequent to the year-end this stock acquisition program has been extended to all management personnel at store manager level and above, excluding Directors. Twenty thousand Class "A" shares were allocated for this purpose and the reaction of management has been most enthusiastic.

During April, 1969, an agreement was reached for the acquisition of J. Alex MacKenzie Limited of Regina, an 8 store chain of fine jewellery stores in Western Canada and the leading chain in the West. It will be integrated into our Mappin's operation.

During the year Irving R. Gerstein became Executive Vice-President, with M. C. Gord succeeding him as Vice-President, Merchandising, and B. E. Smith was appointed Vice-President, Finance and Treasurer. Both of our new officers bring with them a long and successful record of merchandising and finance in the retail field.

The thanks of the Company are due to the more than 1,000 employees across Canada whose loyalty and devotion have played no small part in the successful efforts that have been achieved during the year.

Respectfully submitted on behalf of the Board.

Toronto, April 30, 1969.

BERTRAND GERSTEIN,
Chairman of the Board.

PEOPLES CREDIT

(Incorporated under the laws of the State of New York)

and Subsidiaries

CONSOLIDATED BALANCE SHEET

with comparative figures for 1968

ASSETS		
	1969	1968
CURRENT ASSETS		
Cash and deposit receipt	\$ 1,059,911	\$ 54,708
Accounts receivable (note 2)	7,870,293	7,051,087
Merchandise, valued at cost or market, whichever is the lower	5,468,753	5,020,870
Prepaid expenses	84,166	41,817
TOTAL CURRENT ASSETS	14,483,123	12,168,482
OTHER		
Notes receivable from shareholders (note 4)	486,250	—
5% refundable tax	—	42,111
TOTAL OTHER ASSETS	486,250	42,111
FIXED ASSETS — at cost (note 1)		
Buildings	2,863,671	2,861,504
Furniture and Fixtures	3,264,094	2,921,737
Automobiles	79,599	42,047
	<u>6,207,364</u>	<u>5,825,288</u>
LESS: Accumulated depreciation	3,566,666	3,375,109
	<u>2,640,698</u>	<u>2,450,179</u>
Land	1,809,490	1,809,490
Leasehold improvements, at cost less amortization	417,878	290,437
TOTAL FIXED ASSETS	4,868,066	4,550,106

On behalf of the Board

Bertrand Gerstein, *Director*

Marvin Gerstein, *Director*

\$19,837,439 \$16,760,699

WELLERS LIMITED

(In accordance with the laws of Canada)

Companies

AS AT JANUARY 31, 1969

figures for 1968

LIABILITIES

CURRENT LIABILITIES	1969	1968
Bank indebtedness (note 2)	\$ 3,147,414	\$ 960,947
Accounts payable	1,266,282	1,155,009
Income and other taxes payable	558,206	674,008
Dividends payable	70,970	67,170
Instalments on long-term debt due within one year	245,000	290,351
TOTAL CURRENT LIABILITIES	5,287,872	3,147,485
DEFERRED INCOME TAXES (note 1)	15,000	—
6.25% DEBENTURE (note 3)	2,965,000	3,210,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK

AUTHORIZED:

	SHARES
6% cumulative redeemable first preferred shares, each of \$100 par value	12,890
4% non-cumulative redeemable second preferred shares, each 10¢ par value	10,000,000
Class "A" non-voting, participating shares without nominal or par value	750,000
Common shares without nominal or par value	375,000

ISSUED:

6% first preferred (1968—9,083)	8,525	852,500	908,300
Class "A" shares (note 4) (1968—447,800)	485,800	732,717	168,467
Common shares	223,900	84,233	84,233
		1,669,450	1,161,000

RETAINED EARNINGS

TOTAL SHAREHOLDERS' EQUITY

9,900,117	9,242,214
11,569,567	10,403,214
\$19,837,439	\$16,760,699

PEOPLES CREDIT JEWELLERS LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED JANUARY 31, 1969 with comparative figures for 1968

	1969	1968
Sales	\$21,621,926	\$20,104,625
INCOME for the year before providing for the undernoted items	\$ 2,643,607	\$ 2,673,147
Less:		
Depreciation and amortization (note 1)	\$268,572	\$327,934
Interest on long-term debt	208,596	226,719
Interest on bank indebtedness	64,081	541,249
	41,017	595,670
INCOME before provision for income taxes	2,102,358	2,077,477
Provision for income taxes	1,115,000	1,100,000
NET INCOME for the year	\$ 987,358	\$ 977,477

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED JANUARY 31, 1969 with comparative figures for 1968

	1969	1968
RETAINED EARNINGS—beginning of the year		
As previously reported	\$ 9,322,795	\$ 8,670,013
Less prior years' adjustments (note 5):		
Income taxes	42,000	42,000
Vacation pay	38,581	38,581
As restated	9,242,214	8,589,432
Add:		
Net income for the year	987,358	977,477
	10,229,572	9,566,909
Deduct:		
Dividends paid—preferred shares	\$ 52,375	\$ 56,015
—class "A" shares	187,520	179,120
—common shares	89,560	329,455
	89,560	324,695
RETAINED EARNINGS—end of the year	\$ 9,900,117	\$ 9,242,214

PEOPLES CREDIT JEWELLERS LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JANUARY 31, 1969

with comparative figures for 1968

	1969	1968
Funds were provided from:		
Operations:		
Net income for the year	\$ 987,358	\$ 977,477
Add: Expenses which do not require an outlay of funds:		
Depreciation and amortization	268,572	327,934
Deferred income taxes	15,000	—
	<u>1,270,930</u>	<u>1,305,411</u>
Issue of Class "A" shares	564,250	—
Reduction of 5% refundable tax	42,111	—
TOTAL FUNDS PROVIDED	<u>1,877,291</u>	<u>1,305,411</u>
Funds were applied to:		
Purchase of fixed assets (net)	586,532	374,712
Dividends	329,455	324,695
Notes receivable from shareholders	486,250	—
Redemption of first preferred shares	55,800	76,900
Reduction of long-term debt	245,000	290,351
5% refundable tax	—	2,367
TOTAL FUNDS APPLIED	<u>1,703,037</u>	<u>1,069,025</u>
Increase in working capital	174,254	236,386
Working capital—beginning of the year	9,020,997	8,784,611
Working capital—end of the year	<u>\$9,195,251</u>	<u>\$9,020,997</u>

AUDITORS' REPORT

To the Shareholders
Peoples Credit Jewellers Limited

We have examined the consolidated balance sheet of Peoples Credit Jewellers Limited and subsidiary companies as at January 31, 1969, and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at January 31, 1969, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes in accounting for depreciation and vacation pay as explained in notes 1 and 5, which changes we approve.

Toronto, Canada
April 11, 1969

Clarkson, Gordon & Co.
Chartered Accountants

PEOPLES CREDIT JEWELLERS LIMITED

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1969

1. CHANGES IN ACCOUNTING PRACTICE (see also note 5)

During the year, the Companies made certain changes in accounting practice in an effort to more closely match costs and revenues, including changes affecting capital costs relating to the equipping of new stores and the basis of depreciating furniture and fixtures.

In prior years, all capital costs relating to the opening of new stores were recorded as additions to furniture and fixtures. Effective January 31, 1968, \$346,821 of these costs together with the related accumulated depreciation of \$132,433 have been reclassified as leasehold improvements. In addition furniture and fixtures previously depreciated at 20% on the reducing balance basis have, in 1969, been depreciated at 10% straight-line. As a result net income for the year has been increased by approximately \$52,000. Capital Cost Allowances deductible for income tax purposes now exceed depreciation recorded in the accounts and deferred income taxes of \$15,000 have been provided on this excess.

2. ACCOUNTS RECEIVABLE

Accounts receivable have been pledged as security for bank indebtedness and are shown net of the following:

	1969	1968
Allowance for doubtful accounts	\$458,000	\$393,000
Unearned service charges	\$367,050	\$270,163

3. DEBENTURE

The 6.25% Debenture is due in June, 1981 and repayable in annual instalments of \$245,000. This Debenture is secured by a floating charge on the Companies' properties. Under the agreement securing the Debenture, there are various restrictions affecting the payment of dividends. At the end of the year approximately \$2,000,000 of consolidated retained earnings were free of restrictions and available for the payment of dividends.

4. CAPITAL STOCK

During the year, the company issued 38,000 Class "A" shares as follows:

1. 8,000 shares were issued for \$78,000 as part of the consideration for the purchase of the assets of Coronet Card Shops.
2. Subject to the approval of the shareholders, the Directors have adopted an Executive Stock Purchase Plan and a Select Employees Stock Acquisition Program to provide executives (other than Directors) and employees an opportunity to participate in the growth and development of the Company. For this purpose, 50,000 shares were set aside for the two programs—40,000 shares for the Executive Plan and 10,000 shares for the Select Employees Program. In connection with the Executive Plan, 30,000 Class "A" shares were issued for \$486,250 payable in annual instalments in each of the ten years to 1979.

Subsequent to the end of the year, the Directors set aside an additional 10,000 Class "A" shares for the Select Employee Stock Acquisition Program, subject to the approval of the shareholders. On March 31, 1969, the remaining 10,000 shares set aside for the Executive Stock Purchase Plan and the 20,000 shares now set aside for the Select Employees Stock Acquisition Program were offered to Executives and Select Employees and were fully subscribed and issued for \$795,000 payable in annual instalments to 1979.

5. PRIOR YEARS' ADJUSTMENTS

Vacation pay costs, which in prior years were absorbed on a cash basis, have been recorded in the accompanying financial statements on the accrual basis of accounting. In addition, the Companies were re-assessed in 1968 for income taxes applicable to the four years ended January 31, 1967. Accordingly, the balances of consolidated retained earnings at January 31, 1967 and 1968, have been restated from the amounts previously reported to reflect retroactive charges of \$38,581 for accrued vacation pay at January 31, 1967 (net of related income taxes) and \$42,000 for additional income taxes settled in 1968. The change in the method of accounting for vacation pay has had no effect on income as reported for 1969 or 1968.

6. OTHER INFORMATION

Remuneration paid during the year to the Company's directors amounted to \$133,823. Remuneration of directors and senior officers of the Company, as defined under The Securities Act, 1966 (Ontario), for the year amounted to \$188,226.

7. COMMITMENTS

Since the end of the fiscal year, the Company has agreed to purchase real property of \$725,000 to be paid in cash and by assumption of mortgages.

By an agreement reached in April, 1969, the Company is to acquire all the outstanding shares of J. Alex MacKenzie Limited and related companies, for \$675,000 payable in cash, notes due 1970 to 1972 and Class "A" shares.

A number of the Companies' store locations are held on leases entered into for periods from five to twenty years. Most of these leases are for fixed rentals; some, in addition, contain percentage-of-sales clauses. The minimum annual rentals payable under all such leases currently in force totals \$619,000 and actual rentals in the year amounted to \$817,000.

PEOPLES CREDIT JEWELLERS LIMITED**NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of **PEOPLES CREDIT JEWELLERS LIMITED** (The "Company") will be held in the Board Room of National Trust Company, Limited, 3rd floor, 21 King Street East, Toronto, Ontario, on Friday, the 24th day of May, 1968, at the hour of 2:00 o'clock (Toronto time) in the afternoon, for the purpose of —

- (a) receiving and considering the Annual Report, the Financial Statements and the Report of the Auditors;
- (b) electing Directors;
- (c) appointing Auditors and authorizing the Directors to fix their remuneration;
- (d) ratifying all acts and proceedings of the Directors and Officers since the last Annual Meeting of Shareholders; and
- (e) transacting such further and other business as may properly be brought before the Meeting or any adjournment thereof.

DATED at Toronto this 9th day of May, 1968.

By order of the Board of Directors

IRWIN KOFFMAN,
Secretary.

Shareholders who do not expect to attend the Meeting in person are requested to fill in, date and sign the enclosed Form of Proxy and return it promptly to the Secretary of the Company in the envelope provided for that purpose.

PEOPLES CREDIT JEWELLERS LIMITED

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

The accompanying Form of Proxy is being solicited on behalf of the Management of PEOPLES CREDIT JEWELLERS LIMITED (the "Company") for use at the Annual Meeting of Shareholders of the Company to be held on Friday, May 24, 1968, at 2:00 o'clock in the afternoon (Toronto time) in the Board Room of the National Trust Company, Limited, 3rd floor, 21 King Street East, Toronto, Ontario. The cost of solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the accompanying Form of Proxy are Directors of the Company. **A Shareholder desiring to appoint some other person to represent him at the meeting may do so,** either by inserting such person's name in the blank space provided in the Form of Proxy or by completing another Form of Proxy and in either case, delivering the completed proxy to the Secretary of the Company. The person giving a proxy in the accompanying form has the right to revoke it at any time prior to its exercise.

EXERCISE OF DISCRETION BY PROXIES

As of the date of this Information Circular, the only business which the Management intends to present at the Meeting is that referred to herein or in the Notice of the Annual Meeting of Shareholders. If any other matter is properly brought before the Meeting or any adjournment thereof, it is the intention of the person named in the accompanying Form of Proxy to vote the proxy on such matter in his discretion in accordance with his best judgment.

SHARES AND SHARE OWNERSHIP

Holders of common shares and holders of 6% cumulative redeemable first preferred shares of record at the close of business on May 3, 1968, will be entitled to vote at the meeting.

On that date, 223,900 common shares and 8,946 6% cumulative redeemable first preferred shares were issued and outstanding. Each Shareholder is entitled to one vote for each common share, and one vote for each 6% cumulative redeemable first preferred share held by him.

To the knowledge of the Directors and Senior Officers of the Company, the following are the only persons or companies as at May 3, 1968, beneficially owning, directly or indirectly, equity shares carrying more than 10% of the voting rights attached to all equity shares of the Company:

<u>Name of Shareholder</u>	<u>Approximate Number of Common Shares</u>	<u>Percentage of Outstanding Equity Shares of the Company Represented by the Number of Shares so Owned</u>
Dewbourne Investments Limited	60,000	26%
Glenoak Investments Limited	60,000	26%
Cargai Holdings Limited	26,200	11%

ELECTION OF DIRECTORS

The Board consists of three Directors to be elected annually. Each proposed nominee for Director named below is now a Director of the Company. The term of office for which each such proposed nominee is a candidate will expire at the next Annual Meeting of Shareholders of the Company or when his successor is elected under the Company's by-laws. It is the intention of the persons named in the accompanying proxy to vote for the election of each such proposed nominee as Director.

Should any proposed nominee named herein for the office of Director become unable or unwilling to accept nomination or election, which the Management does not now contemplate, the proxy will be voted in the discretion and in accordance with the best judgment of the person acting under it.

The names of the three proposed nominees, their present principal occupations or employments, the period during which they have served as Directors of the Company and the approximate number of equity shares of the Company beneficially owned by them, directly or indirectly, as of May 3, 1968, according to information furnished by them to the Company are as follows:

<u>Proposed Nominees</u>	<u>Principal Occupation</u>	<u>Became a Director</u>	<u>Equity Shares of the Company owned Beneficially</u>
<u>Bertrand Gerstein</u>	Chairman of the Board since 1967; previously President of the Company	1938	13,863 common shares
<u>Marvin Gerstein</u>	President since 1967; previously Executive Vice- President of the Company	1949	13,677 common shares
<u>Irving R. Gerstein</u>	Vice-President, Merchandising since 1967; previously Manager, Merchandising Division	1964	210 common shares 7 6% cumulative, redeemable first preferred shares

All the persons named above have carried on the same principal occupation or employment for five or more years. For the purposes of The Securities Act (Ontario), Dewbourne Investments Limited and Glenoak Investments Limited mentioned above, are associates of the proposed nominees, Bertrand Gerstein and Marvin Gerstein.

REMUNERATION OF MANAGEMENT AND OTHERS

During the year ended January 31, 1968, remuneration of the Company's Directors and Senior Officers amounted to \$148,106. Mr. James A. Henry, Vice-President, Operations, was indebted to the Company on a non-interest bearing demand note having outstanding as its largest balance during the fiscal year the sum of \$13,292 and as its present balance \$12,842, on account of a loan for the purchase of shares of the Company.

APPOINTMENT OF AUDITORS

The persons named in the accompanying proxy intend to vote for the reappointment of Clarkson, Gordon & Co., Chartered Accountants, Toronto, as Auditors of the Company and authorizing the Directors to fix their remuneration. Clarkson, Gordon & Co. were first appointed as Auditors of the Company on June 22, 1966.

DATED at Toronto this 9th day of May, 1968.

By order of the Board of Directors

IRWIN KOFFMAN,
Secretary.

13 shouldlers represent

200,217 store